

Revenue Forecasts for Fiscal Year Collections, 2004 and 2005

**Presented to
Tennessee State Funding Board**

**Presented by
Richard D. Evans, Director of Forecasting
Sparks Bureau of Business and Economic Research/
Center for Manpower Studies
The University of Memphis**

April 15, 2004

Total Tennessee Tax Collections

- 2004 median forecast \$9,108 million.
- 7.1 percent growth from fiscal year 2003.
- 64.0 percent from one source, Sales and Use Tax.
- 2005 median forecast \$9,426 million.
- 3.5 percent growth from median forecast in 2004.
- Assume no change in tax rates or definitions of tax base.
- Source of revenue data <http://www.state.tn.us/revenue/collections/> and http://www.state.tn.us/revenue/collections/historical_page1.htm.

Sales and Use Taxes

- 2004 median forecast \$5,828 million.
- 6.8 percent growth from fiscal year 2003.
- Estimated probability is 0.25 that sales tax will be less than \$5,784 million.
- 0.75 probability that it will be less than \$5,872 million.
- 2005 median forecast \$5,970 million.
- 2.4 percent growth from median forecast in 2004.
- Assume no change in tax rate or base.

Table 1. Collections and Forecasts, FY2003-FY2005

	FY2003		Forecast for FY2004		Forecast for FY2005	
	Collections (\$ Million)	Growth Rate	Collections (\$ Million)	Growth Rate	Collections (\$ Million)	Growth Rate
Franchise and Excise	\$1,085.0	12.0%	\$1,167.8	7.6%	\$ 1,262.5	8.1%
Income	116.8	-19.2%	119.4	2.2%	128.4	7.6%
Inheritance and Estate	81.8	-16.1%	119.7	46.4%	130.8	9.3%
Gasoline	600.9	4.2%	601.7	0.1%	614.7	2.2%
Gasoline Inspection Tax	60.7	- 1.5%	62.0	2.1%	63.7	2.7%
Tobacco	114.5	33.5%	122.1	6.6%	125.3	2.6%
Beer	17.7	12.6%	18.0	1.7%	18.5	2.3%
Motor Vehicle Registration	226.8	2.5%	236.9	4.4%	247.4	4.4%
Motor Vehicle Title	11.0	3.1%	11.4	4.2%	11.9	4.2%
Mixed Drink	38.5	7.7%	40.7	5.6%	43.7	7.4%
Business	40.3	90.9%	96.4	139.4%	96.4	0.0%
Privilege	248.6	19.6%	261.1	5.0%	284.2	8.8%
TVA and Gross Receipts	216.3	- 3.4%	216.6	0.1%	221.4	2.2%
Alcoholic Beverage	34.7	13.2%	36.6	5.4%	38.3	4.6%
Sales and Use	5,455.2	17.2%	5,828.3	6.8%	5,970.0	2.4%
Motor Vehicle Fuel	154.8	-12.9%	164.4	6.3%	163.9	-0.4%
Severance	1.1	- 5.5%	1.1	1.4%	1.1	1.4%
Coin-operated Amusement	0.8	—	3.5	—	3.5	0.0%
Total	\$ 8,505.5	12.9%	\$ 9,107.7	7.1%	\$ 9,426.0	3.5%

Low Risk of Falling Below Budget Target for FY2004 Collections

- Total Taxes:
 - Forecast is \$367 million above budget target.
 - Probability of falling below target: 0.15.
- Franchise and Excise: \$99 million above.
- Inheritance and Estate: \$45 million above.
- Gasoline: \$13 million above target.
- Sales and Use:
 - \$208 million above target.
 - Virtually zero risk of sales tax falling below target.

Table 2. Risk of Falling Below Target, FY2004

	FY2004 Target (\$ Million)	FY2004 Forecast (\$ Million)	Forecast-Target (\$ Million)	Probability Below Target
Franchise and Excise	\$ 1,068.6	\$ 1,167.8	\$ 99.2	0.10
Income	121.1	119.4	- 1.7	0.57
Inheritance and Estate	75.0	119.7	44.7	0.01
Gasoline	588.5	601.7	13.2	0.11
Gasoline Inspection Tax	64.7	62.0	- 2.7	1.00
Tobacco	118.4	122.1	3.7	0.00
Beer	18.0	18.0	0.0	0.45
Motor Vehicle Registration	240.8	236.9	- 3.9	0.68
Motor Vehicle Title	11.1	11.4	0.3	0.08
Mixed Drink	39.9	40.7	0.8	0.12
Business	96.4	96.4	0.0	0.50
Privilege	249.6	261.1	11.5	0.13
TVA and Gross Receipts	224.0	216.6	- 7.4	1.00
Alcoholic Beverage	35.0	36.6	1.6	0.00
Sales and Use	5,619.9	5,828.3	208.4	0.00
Motor Vehicle Fuel	165.1	164.4	- 0.7	0.57
Severance	1.1	1.1	0.0	0.58
Coin-operated Amusement	3.5	3.5	0.0	0.50
Total	\$ 8,740.7	\$ 9,107.7	\$ 367.0	0.15

Risk Analysis for FY2005 Collections

- Total Taxes: Only 0.15 risk of zero growth relative to target levels set for 2004.
- Median Forecast of Total: \$9,426 million.
- 0.25 probability that Total will be at or below \$8,983 million.
- 0.75 probability that Total will be at or below \$9,869 million.

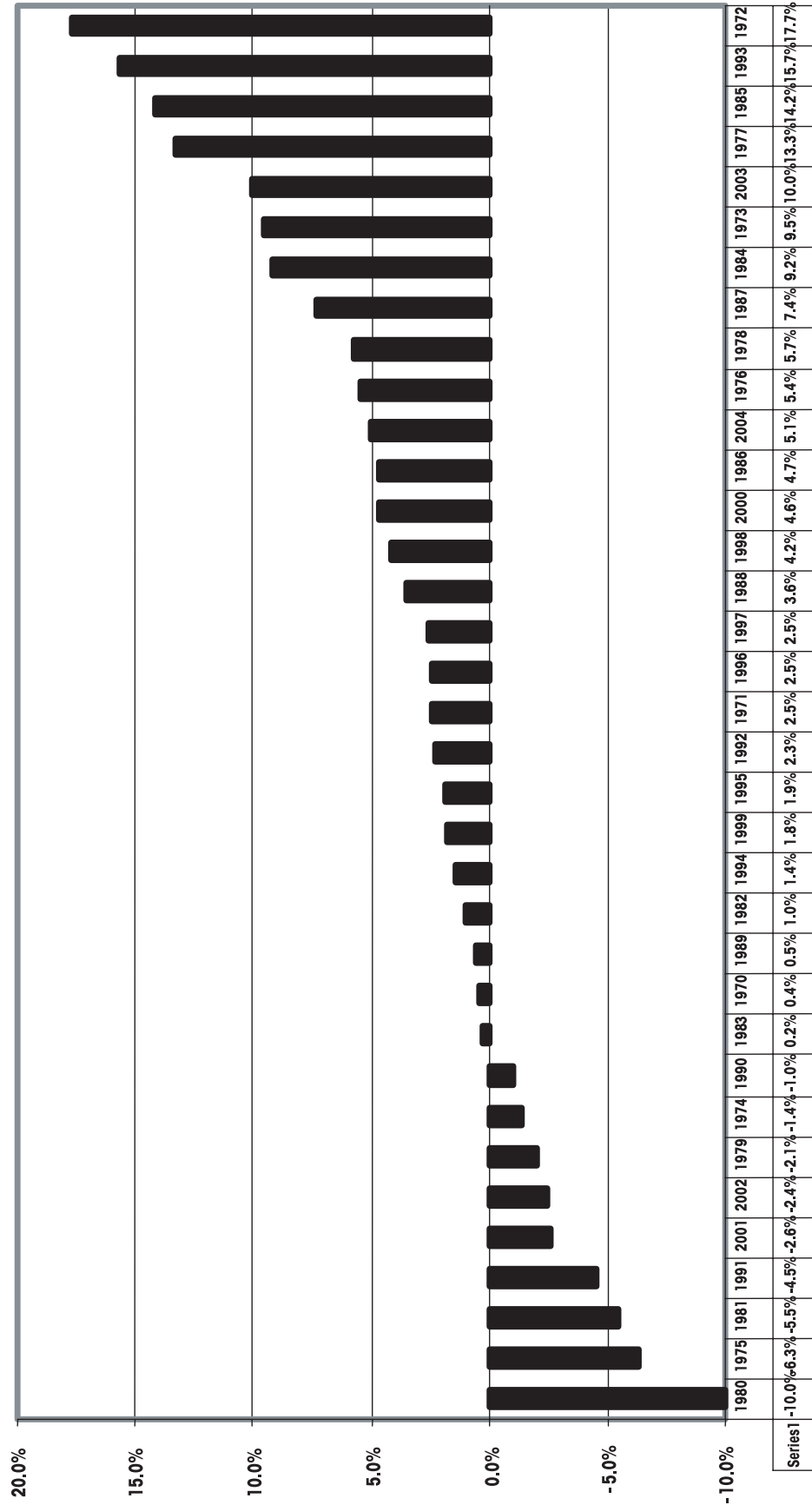
Table 3. Risk Analysis for FY2005 Collections

	No Growth from 2004		Less-than-or-Equal-to Quartiles		
	Target (\$ Million)	Probability	0.25 (\$ Million)	0.50 (\$ Million)	0.75 (\$ Million)
Franchise and Excise	\$ 1,068.6	0.21	\$ 1,094.4	\$ 1,262.5	\$ 1,405.8
Income	121.1	0.32	117.9	128.4	139.0
Inheritance and Estate	75.0	0.11	98.7	130.8	154.9
Gasoline	588.5	0.17	595.9	614.7	632.7
Gasoline Inspection Tax	64.7	0.67	62.0	63.7	65.3
Tobacco	118.4	0.04	122.7	125.3	127.8
Beer	18.0	0.29	17.9	18.5	19.0
Motor Vehicle Registration	240.8	0.30	238.6	247.4	255.8
Motor Vehicle Title	11.1	0.16	11.4	11.9	12.5
Mixed Drink	39.9	0.02	42.4	43.7	44.9
Business	96.4	0.50	92.1	96.4	100.7
Privilege	249.6	0.17	258.8	284.2	307.1
TVA and Gross Receipts	224.0	0.61	215.0	221.4	227.5
Alcoholic Beverage	35.0	0.01	37.3	38.3	39.2
Sales and Use	5,619.9	0.21	5,682.4	5,970.0	6,257.7
Motor Vehicle Fuel	165.1	0.54	155.0	163.9	172.2
Severance	1.1	0.53	0.9	1.1	1.2
Coin-operated Amusement	3.5	0.50	—	3.5	—
Total	\$ 8,740.7	0.15	\$ 8,982.6	\$ 9,425.6	\$ 9,868.6

Total Revenue Growth in the Context of Inflation

- Forecasted 7.1 percent growth for Total Taxes.
- Inflation Adjusted: 5.1 percent.
 - CPI January 2003, 181.7; January 2004, 185.2
- 2004 forecast would give eleventh largest inflation-adjusted growth rate since 1970.
- 2003 was the fifth largest.
- 2001 and 2002: fifth and sixth worst.

Chart 1. Inflation-Adjusted Fiscal Year Growth in Total Tax Collections

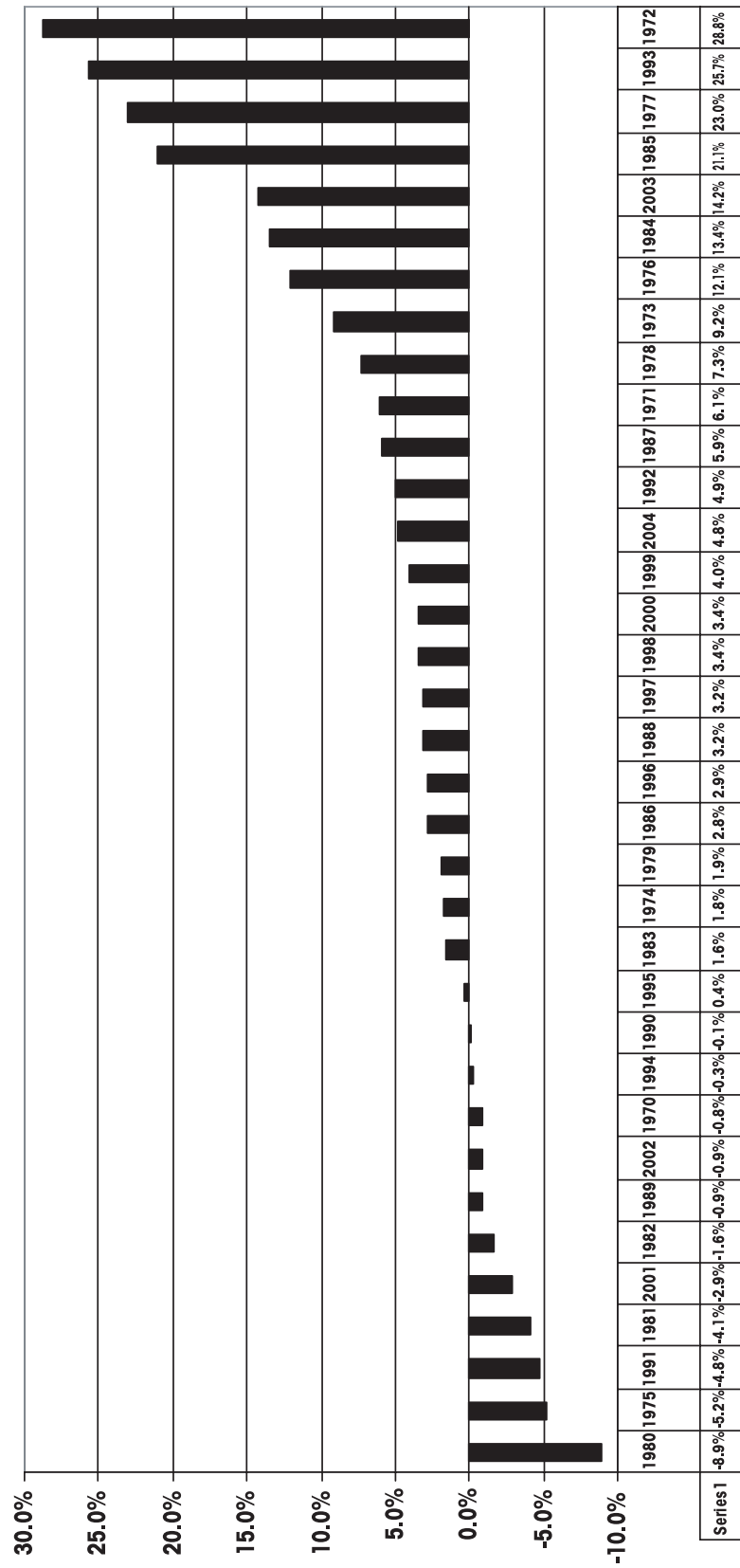


Source: SBBER.

Sales Tax Growth in the Context of Inflation

- Forecasted 6.8 percent growth for Sales Taxes.
- Inflation Adjusted: 4.8 percent.
- 2004 forecast would give thirteenth largest inflation-adjusted growth rate since 1970.
 - Rarely such large growth without an increase in the sales tax rate.
- 2003 was the fifth largest.
- 2001 and 2002: fifth and eighth worst.

Chart 2. Inflation-Adjusted Fiscal Year Growth in Sales Taxes



Source: SBBER.